

DRAFT
CITY OF SAN DIEGO
SECTION 108 LOAN GUARANTEE APPLICATION
CHOLLAS PARKWAY BUSINESS PARK

PROJECT DESCRIPTION

The City of San Diego is requesting \$1,350,000 in Section 108 Loan Guarantee funds to assist with the development of Chollas Parkway Business Park, a 10.16 acre site located in the north-east area of the City. The project property is located along both sides of Chollas Parkway between 54th Street and University Avenue. The development of the business park calls for the City to vacate the street and right-of-way, and the developers, in conjunction with the adjacent property owner, construct 80,000 to 125,000 square feet. The buildings will be designed to serve light industrial and small enterprise uses and will include some office improvements, work areas with 16 to 18-foot clear heights, roll-up grade-level truck doors, tinted windows in the office areas and skylights for the work areas. Each building will be located on a separate parcel and be intended for sale to individual business owners. Parking, landscaping and private driveways will be owned in common and maintained by a property owners' association.

The project will also include demolition of the existing street improvements on the project site. It will include the extension of an existing public street (Lea Street), a new southern access with signalization (University Avenue & Lea Street), creek improvements and the southernmost portion of the property may be dedicated as parkland.

BACKGROUND

The older area of San Diego in which the project is located suffers from blight, environmental contamination, unemployment and poverty. The area is so much a concern to the City that in May 2003 the City adopted a new redevelopment project area, the Crossroads Redevelopment Project Area, that includes the project site. The FY 2002-2005 Consolidated Plan has focused its economic strategies to "establish and implements [sic] an *Urban Economic Development Strategy* which focuses on the needs of San Diego's older and/or inner city neighborhoods." The University Avenue corridor is one of the older areas of San Diego and the redevelopment plan for the area describes the conditions: "University Avenue has a strip club, adult book store and massage establishments that are adjacent to low budget motels. Adult businesses are generally located in the red light district of the City. However, along University Avenue, adult enterprises are located near residential units as well as commercial parcels. These types of businesses add to the degrading of and the further undermining of the neighborhood's appeal." This project eliminates one of the worst of the blighted areas. The Strategy also emphasizes "creating and maintaining livable and healthy communities." The project creates an attractive development, which incorporates the amenities of the Chollas Creek Master Plan along its south boundary, providing a pleasant amenity for the employees at the business park and residents. The Plan also sets "creating jobs accessible to low- and moderate-income persons" as one of its goals. The new businesses are expected to create between 250 to 500 new jobs, many of which will be good manufacturing jobs. The jobs will be close to affordable housing and public transportation, and the program supports the reverse commute concept.

All of the structures which are on an adjacent property are substandard, dilapidated, or boarded up, and one is a World War II Quonset hut, will be included and demolished as part of this project. The corrugated metal that was used 60 or more years ago in the Quonset Huts is not an approved building material under today's standards. The adjacent property may have surface contamination from the illegal auto repair businesses that operated on bare ground, rather than in approved structures. There is a possibility of old underground storage tanks which have probably leaked during some phase of their use. Even the publicly owned street is being abandoned as obsolete given the decision not to construct the expressway. That street will also be demolished to provide acreage for the new development.

The project Target Area established as part of the BEDI application placed the level of poverty at 14.6% and unemployment rate at 6.1%, both based on the 2000 US Census data. Further distress factors in the target area, when compared to those citywide from the 2000 census indicate: that the per capita income within the target area is only \$12,886, a little less than 50% of the Citywide level of \$23,609; median household income of \$29,490, compared to citywide of \$45,733; and of those over 18 years of age within the target area, 34.4% never graduated from high school, as compared to 17.2% citywide; percentage of households in the target area receiving public assistance is 9.1%, compare to the citywide level of 3.9%; and, 68.6% of the population in the target area is made up of minorities, compared to the citywide level of 33.8%.

SOURCES AND USES OF PROJECT FUNDING

The City intends to use a variety of funding sources for this project, primarily private sector funding from the developer and the requested HUD funds. See Attachment B for more detail regarding sources and uses for the project.

Uses	
Land	\$ 1,600,000
Land, Adjacent Property	\$ 392,040
Traffic Signal	\$ 150,000
Extension of Lea Street	\$ 200,000
Chollas Creek Enhancements	\$ 125,000
Demolition	\$ 442,570
New Construction	\$ 14,962,330
Interest on Section 108 Loan	\$ 225,000
Total	\$ 18,096,940
Sources	
BEDI	\$ 225,000
Section 108	\$ 1,350,000
Land Value	\$ 1,992,040
Private Equity	\$ 2,925,357
Private Debt	\$ 11,604,543
Total	\$ 18,096,940

PROJECT STRUCTURE AND PARTICIPANTS

This project will be implemented by the Redevelopment Agency of the City of San Diego. The Agency selected a joint venture partner, McComic Consolidated, Inc. in 2000. The development concept calls for the City to vacate a street and right of way and to make the other City land available to McComic to construct a business park for light industrial and small business uses. An adjacent parcel may also be made available for the project. McComic would develop the business park for eventual condominium type ownership with parking, landscaping, and private driveways to be owned in common and maintained through a property owners' association.

REPAYMENT SCHEDULE

The proposed term of the repayment of the Section 108 Loan Guarantee funds is 20 years. The City will be responsible for the repayment of the Section 108. The City is proposing to make interest only payments in the first three years followed by principal and interest payments over the remainder of the loan. The City's source of repayment will come through the Redevelopment Agency tax increment revenues generated by the Chollas Business Park project. The program calls for the buildings to be sold by the developer to end users. The City will also make available second trust deeds through an existing loan interest revolving loan program for qualified end users. The spreadsheet included as Attachment C shows the projected fixed repayment schedule.

The City intends to use \$225,000 of requested BEDI funds to make interest only payments in the early years of the loan and the interest portion of the payment following that period. This will allow the project to be developed and start to generate the tax revenues that will cover the City's portion of the Section 108 repayment amount.

SECURITY/COLLATERAL

Through an Interagency Agreement between the City and the Redevelopment Agency, the Agency will be responsible for repayment of the Section 108 loan with tax increment generated from within the Crossroads Redevelopment Project Area. The City will pledge CDBG revenue as an alternate repayment source in the event that there is insufficient tax increment revenue for the annual payments. The City will also identify real estate that can be encumbered as additional collateral for the loan, if so required.

PROJECT IMPLEMENTATION

The preliminary implementation schedule for the Chollas Parkway Business Park redevelopment project components are as follows:

Activities	Start	Complete
Finalize Venture Agreement between developer and property owner	1/05	4/05
Enter into a DDA with the development entity	1/05	6/05
City transfer of land to development entity	11/05	11/05
Complete remediation activities	11/05	10/06
Complete plans and specs for the private project	1/05	11/05
Complete City entitlement process	10/04	11/05
Let the bids for selection of contractors	8/05	11/05

Issuance of building permits	12/05	12/05
Carryout private project construction activities	12/05	12/06
Sale of units	12/06	6/07
Job creation activities	12/06	6/07
Prepare the plans for the signalization	3/06	8/06
Develop the plans for the creek improvements	4/06	10/06
Let bids on public activities	5/06	6/06
Install the traffic signal and road improvements	7/06	11/06
Carryout the creek improvements	5/06	6/06

As part of this Section 108 application, the City is also requesting authority, pursuant to 24 CFR 570.200 (h), to incur reimbursement for some pre-award costs as soon as the Request for Release of Funds has been approved and the City has amended the current year Action Plan to incorporate the project and the intended use of BEDI and Section 108 funds.

NATIONAL OBJECTIVE

The project meets the CDBG program's national objective outlined at 24 CFR 570.208 (b)(1), *Activities which aid in the prevention or elimination of slum and blight*. The project is located within the City's Crossroads Redevelopment Project Area that was adopted in May 2003. The report adopting the project area details the blight in the area. The report states "At least five commercial/industrial shops are located in buildings that are built of corrugated metal, a substandard material. These businesses are occupying what appear to be surplus WWII Quonset huts. The buildings are deteriorated (to dilapidated) and some are abandoned, and in certain cases a façade has been added to hide the metal structure. This is true in the case of an upholstery shop and also a glass manufacturing shop. The deteriorated conditions not only affect employees' safety but also degrade the physical surroundings." A visual of the project site shows the deteriorated conditions with a World War II Quonset hut, an abandoned building, two structures that are no more than shacks and some sort of structures falling off the bank. Many of the abated practices were auto repairs being conducted in open areas, where battery acids, transmission fluids and fuel spills contaminated the soils. An illegal recycling operation also caused contamination at the site.

ELIGIBLE ACTIVITY

The eligible activities are under 24 CFR 570.703(e)(f)(2), *Clearance, demo and removal of buildings and improvements, and site preparation activities for economic development purposes*. The City will use the Section 108 funds for new traffic signals and road access, for creek improvements and demolition of buildings and the existing street and related soft costs.

PUBLIC BENEFIT STANDARD

The major benefit of the Chollas Parkway Business Park development will be the elimination of the existing blight and underutilized land uses and the recycling of the property into a sustainable economic use. In addition, the new Business Park will generate an estimated 200 new jobs and the \$17.9 million development project will generate new tax revenues for the City and Redevelopment Agency, were none (the street and right-of-way) or very little in tax revenues are currently being generated. The project is leveraging over \$14.7 million in private sector funds.

CERTIFICATIONS AND CITIZEN PARTICIPATION

The City Council conducted a public hearing on ____ __, 2004 regarding the Section 108 and an amendment to the City's 2005 Annual Action Plan to include this project and the proposed use of BEDI/Section 108. A copy of the Council Resolution by which the City Council approved the amendment to the Action Plan and authorized the submittal of the Section 108 Loan Guarantee request is attached (Attachment D). The required certifications are included as Attachment E (1-6). Attachment F is the SF 424, Application for Federal Assistance.

CONTACT PERSONS

If you have any questions regarding the proposed development project, please contact:

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If you have questions regarding the Section 108 and its processing, please contact:

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ATTACHMENTS:

- A. Site Plan
- B. Sources and Uses of Funds
- C. Projected Repayment Schedule
- D. City Council Resolution
- E. HUD Certifications
- F. SF 424

11/02/04